

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

FILE: [REDACTED]

JUN 19 1987

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were incorporated under the laws of the State of [REDACTED] on [REDACTED]. Your purpose are:

- (A) To encourage and promote the sport of boating, water skiing, fishing, camping and outdoor living. And to provide suitable facilities for the use of its members including a houseboat, ski boat, all equipment usual or necessary for safety, comfort and convenience.

No part of the net earnings of the corporation shall inure to the benefit of any member, trustee or officer...

Your activities, in furtherance of your stated purpose, are to own a houseboat and Bayliner boat to be located on Lake [REDACTED], for the benefit of shareholders and their families. The boats were placed in service in [REDACTED] and [REDACTED]. Each shareholder paid \$[REDACTED] as their share of the houseboat. In addition, each shareholder pays [REDACTED]th of the yearly maintenance and a [REDACTED] per night use fee to offset the expense. Each shareholder is assigned three weeks to use the boat a year.

When asked the percentage of time your shareholders commingled, you indicated that during the year, in March and October, your shareholders meet to make decisions regarding repairs, use, and maintaining the houseboat. Article IV of your By-Laws states, "Shareholders may not rent, lend, or make available the use or operation of the houseboat to any outside their immediate family..." You have indicated that outside of the previous mentioned meetings you do not plan any social or recreational programs.

Code	Initiator	Reviewer	Reviews	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					
		[REDACTED]					

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exception extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

Revenue Ruling 70-32, 1970-1 Cumulative Bulletin 132 holds that a flying club providing economical flying facilities for its members but having no organized social and recreation program does not qualify for exemption under IRC 501(c)(7).

Revenue Ruling 69-220, 1969-1 C.B. 154 holds that a social club that receives a substantial portion of its income from the rental of property and uses it for income to defray operating costs and to improve and expend its facilities is not exempt under section 501(c)(7) of the Code.

Revenue Ruling 58-589, 1958-2 C.B. 266 sets forth the criteria for determining whether an organization qualifies for exemption from Federal income tax under section 501(c)(7) of the Code. An organization must establish that it is a club both organized and operated exclusively for pleasure, recreation and other non-profitable purposes and that no part of the net earnings inures to the benefit of any private shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contacts and fellowship. A community of the members must play a material part in the life of the organization.

Your activities are the maintenance of a facility, albeit a houseboat, for members use. You have indicated that you have little organized social and recreational programs, and therefore, are like the organization described in Revenue Ruling 70-32. Furthermore, you have not proven that the comingling of your members plays a material part in the activities of your organization.

[REDACTED]

Rather, it appears that you are similar to a time-share operation, and do not meet the commingling requirement of Revenue Ruling 58-599.

Additionally, like the organization described in Revenue Ruling 69-120, you receive a substantial portion of your income from assessments to members, to defray operating costs and to improve your facility. Accordingly, you do not qualify for recognition of exemption from Federal income tax under section 501(c)(7) of the Code. You are therefore required to file Federal income tax returns.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a Brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018